

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON UMVOTI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Umvoti Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umvoti Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material losses

8. As disclosed in note 35 to the financial statements, material losses relating to electricity losses of R5,10 million (7,30 million kwh) were incurred.

Additional matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

10. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2014:

Objective 2: Basic service delivery and infrastructure development on pages x to x

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it



was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected objective are as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

Basis 1: Consistency of objectives, indicators and targets

Reported indicators and targets not consistent with planned indicators and targets

18. Section 41(c) of the Local Government: Municipal Systems Act of South Africa, 2000 (Act No.32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 35% of the planned indicators and 70% of the planned targets were not consistent with reported performance information. This was due to inadequate review of the annual performance plan to ensure that it is aligned to the integrated development plan.

Changes to indicators and targets not approved

19. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan (SDBIP) adopted by the municipal council may be amended only if the council approves an adjustments budget. Changes to the SDBIP in the year have to be made in accordance with the process as prescribed per section 28 of the MFMA. Material changes were made to the indicators and targets in the annual performance report, without following the process as prescribed in section 28 of the MFMA and without adoption by the municipal council. This was due to a lack of regular review of the SDBIP to ensure that any changes made thereto were approved by the relevant authority.

Basis 2: Measurability of indicators and targets

Performance targets not specific and measurable

20. The FMPPI requires that performance targets must be specific in clearly identifying the nature and required level of performance. A total of 22% of the targets were not specific. This was because management did not adhere to the requirements of the FMPPI.
21. The FMPPI requires that performance targets must be measurable. I could not measure the required performance for 22% of the targets. This was because of a lack of technical indicator descriptions.

Performance indicators not well defined

22. The FMPPI requires that performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 48% of the indicators were not well defined. This was because of a lack of technical indicator descriptions.

Reliability of reported performance information

Validity, accuracy and completeness

23. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

Additional matter

24. I draw attention to the following matter. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

25. Refer to the annual performance report on pages X to X for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 18 to 23 of this report.

Compliance with legislation

26. I performed procedures to obtain evidence that the municipality has complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA are as follows:

Audit committees

27. The performance audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal planning and performance management regulation 14(4)(a)(i).

28. The performance audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).

Annual financial statements

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of contingent liabilities and capital commitments identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

30. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) & (c).

Conditional grants

31. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Infrastructure Grant, Municipal Systems Improvement Grant and the Local



Government Financial Management Grant allocations, as required by section 12(5) of the DoRA.

Strategic planning and performance management

32. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance monitoring and review as required by section 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.

Internal control

33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

34. The accounting officer did not adequately exercise oversight responsibility regarding financial reporting, performance reporting and compliance with key legislation due to vacancies in key positions.

Financial and performance management

35. Management did not implement adequate controls over the preparation of the financial statements to ensure that it complied with the framework resulting in material adjustments to contingent liabilities, capital commitments, revenue, irregular expenditure, and trade payables.
36. Inadequate controls were implemented to monitor and review compliance with the applicable legislation.
37. Management did not implement sufficient monitoring controls to ensure that the reported performance was valid and accurate or that performance indicators and targets were consistent and measurable.

Governance

38. The audit committee did not perform adequate reviews of the financial statements, compliance with laws and regulations and on the usefulness and reliability of the annual performance report.

OTHER REPORTS

Investigations

39. An independent consulting firm was engaged to perform an investigation at the request of the municipality, covering the period 1 April 2012 to 31 April 2013. The investigation was initiated based on allegations of misconduct against certain officials who were alleged to have caused financial prejudice to the municipality. The investigation was finalised and an employee was charged with fraudulent misconduct.



Auditor-General

Pietermaritzburg

28 November 2014



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

